Driving Change

2008 Supplier Responsibility Progress Report

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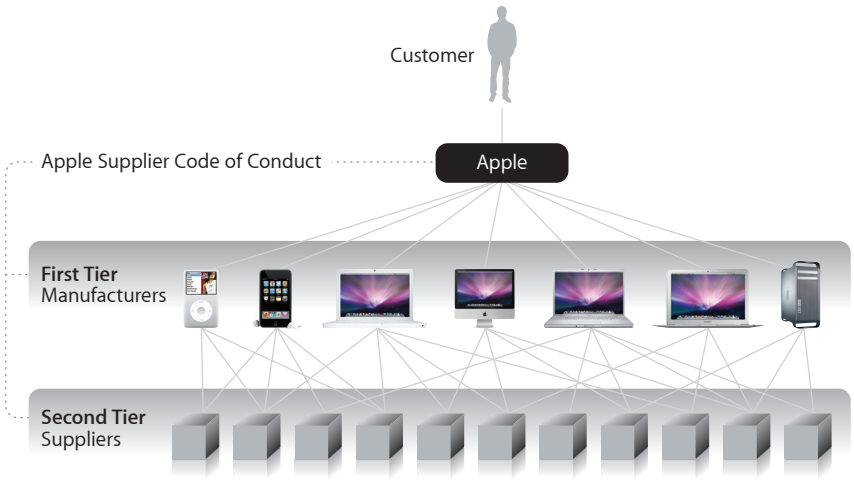
Executive Summary

We began our supplier responsibility program in 2005 with the creation of the Apple Supplier Code of Conduct and a commitment to ensuring that working conditions are safe and employees are treated with dignity and respect wherever Apple products are made. In 2006, we conducted audits of our first-tier suppliers to ensure compliance with our Code. As a result of these audits and the subsequent corrective actions, conditions have improved at facilities where tens of thousands of people manufacture Apple products.

In 2007, our monitoring program focused on two groups of suppliers. First, we reaudited all of the Mac, iPod, and iPhone final assembly suppliers that we audited in 2006. In each case, we found significant improvement in nearly every metric assessed. While there are still areas for improvement, these suppliers have demonstrated strong commitments to the standards in our Code of Conduct and, in some areas, are going beyond compliance. Second, we expanded our compliance program to the next layer of the supply chain and audited 34 companies that provide components to our final assembly suppliers. We found some facilities with outstanding overall performance, but we also found others that did not meet our expectations. After every audit, we worked with the supplier's management team on detailed action plans to address each finding.

This report presents a summary of findings and corrective actions from our 2007 audits, as well as new initiatives designed to drive future improvements.



Our products and components are manufactured by a wide variety of suppliers around the world. The final assembly of most Apple products occurs in China.

Expectations

The Apple Supplier Code of Conduct outlines a comprehensive set of expectations covering labor, human rights, the environment, health and safety, ethics, and management systems. Every supplier's contract with Apple requires compliance with our Code and the upholding of its standards.

Our Supplier Code of Conduct draws upon internationally recognized standards. It is similar to the Electronics Industry Code of Conduct (EICC), but goes beyond the EICC in key areas. For example, Apple's Code recognizes the core conventions of the International Labor Organization (ILO) regarding the rights of workers to freely associate and collectively bargain. Our Code also prohibits medical testing that could be used in discriminatory ways and encourages companies to work with employees to identify and eliminate hazards and minimize the potential for workplace injuries.

Audit Process

Our compliance program begins with a risk assessment that considers the location of the factory and the type of production processes involved. Suppliers must also complete an extensive self-assessment questionnaire. Based on questionnaire responses and other factors, we select facilities for onsite audits.

Audit Methodology

Apple employees conduct every audit, with support from third-party experts. Each auditor is thoroughly trained to use our comprehensive checklist, including the appropriate documents to review, interviews to conduct, and the types of inspections needed to assess each item. Even if no violation is found, we evaluate the management system for each element of our Code and identify areas for improvement.

After each audit, we conduct a closing meeting with facility management to review preliminary results. At this meeting, the audited facility's most senior manager must provide written acknowledgement of the audit results.

When improvements are needed, we require a corrective action plan that addresses not only the specific violation, but also the underlying management system needed to prevent reoccurrence. We track the implementation of each corrective action to closure, with an expectation that all violations will be corrected as quickly as possible, but not later than 90 days after the date of the audit report.

Our corrective action strategy is to work together with our suppliers to drive improvements that benefit workers and the environment. However, where violations are numerous or severe, and corrective actions are inadequate, we terminate the business relationship.

Key Performance Indicators

Audits are an important part of compliance monitoring, but they represent only a snapshot in time. In 2007, Apple required our final assembly suppliers to provide quarterly reports of 23 key performance indicators (KPIs). These KPIs give us a more frequent view of social responsibility performance, including statistics related to employee overtime, training, injuries, living conditions, complaints, turnover, and more.

The advantage of this approach is that we can evaluate how a supplier's performance has changed over the previous quarters, and we can compare their results with those of similar suppliers. Notably, these data are a key element in our performance reviews and help us decide whether to award future business.

Audit Results

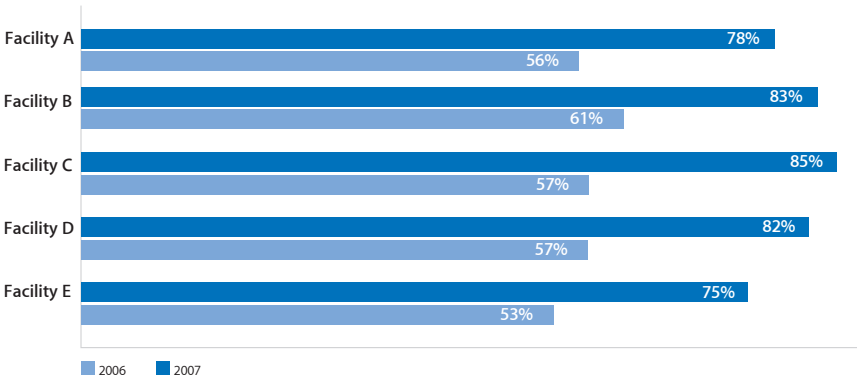
Follow-Up Audits Reveal Progress

In 2007, Apple returned to each of the final assembly facilities we audited in 2006 and conducted follow-up audits to assess progress over the past year. We found broad-based improvements in the working conditions at these facilities.

For example, wage deductions for disciplinary purposes, once a common and legally condoned practice, had ceased. Where we previously found confusing pay practices or underpaid employees, management had simplified payment methods and increased employee wages appropriately.

We observed extensive improvements in health and safety, such as the covering of electrical cables, the addition of new eyewash facilities, better ventilation, and increased employee training on the use of personal protective equipment. Finally, two percent of the employees interviewed in 2006 reported that discipline at the factory was sometimes too harsh. In 2007, none of the workers interviewed reported these concerns, and many had positive comments about the improvements.

2006–2007 Audit Compliance Comparison
We found broad-based improvements in the facilities we reaudited in 2007.



While the results of our follow-up audits showed significant gains, there are still areas for improvement. For example, limits on working hours requires further attention. Management of work hours had improved since the 2006 audits, but some of these suppliers still had levels of overtime that we found too high. We continue to work with management from these suppliers on strategies for reducing working hours.

We also reviewed living conditions and found substantial improvements. These suppliers constructed new dormitories with increased personal space, and they added new cafeterias serving a wide variety of meal choices. In addition, recreational options for employees were enhanced, including Internet access, educational seminars, movies, sports leagues, and video game consoles.

Component Supplier Audits

In addition to the follow-up audits of our final assembly suppliers, Apple completed onsite audits of 34 second-tier facilities, which manufacture and deliver components to our final assembly partners.

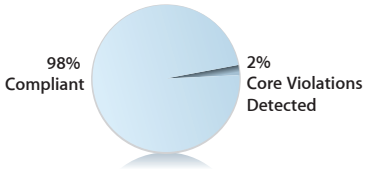
We found outstanding performance at five of the facilities audited. These facilities scored 80 percent or higher of the total points achievable in our audit ratings. Their distinguishing characteristic was a strong focus on management systems that had been in place for several years. The managers were focused on continuous improvements through goal setting, measurement, and regular progress reviews.

In some instances, Apple's audits were the management team's first experience with social compliance monitoring. Despite having committed to achieve the standards in Apple's Supplier Code of Conduct, managers at these facilities had low awareness and understanding of the specific standards in our Code.

As outlined above, we prioritized our 2007 audits based on risk factors. This method focused our resources on the facilities that were most at risk of violating Apple's Supplier Code of Conduct. And indeed, some of the facilities audited did not meet our expectations in all categories.

When our auditors find violations, the supplier must submit a corrective action plan and implement the improvements in a timely manner. For each of the findings described below, the corrective actions are either completed or in progress.

Core Violations



Ninety-eight percent of the core issues assessed by our auditors were in compliance.

While Apple follows up on all violations of our Supplier Code of Conduct, any instances of abuse, underage labor, forced labor, falsification of audited materials, significant threats to employee safety, or any intimidation or retaliation against employees participating in an audit are classified as core violations.

We consider these violations as contrary to the core principles underlying Apple's Supplier Code of Conduct and require immediate corrective actions. During the 2007 audits, we recorded six violations, or about two percent of the total core issues we assessed.

When a core violation is detected, the supplier is required to immediately remedy the situation and address the root causes according to a specific action plan approved by Apple. Additionally, the supplier is placed on probation for one year, during which time they remain under greater scrutiny from Apple and are at higher risk of losing future business.

Of the six core findings, four involved the hiring of 15-year-old workers in areas where the minimum age for employment is 16. In three of these cases, no under-age workers were in active employment at the time of our audit, but our auditors found records of people who had been hired at age 15 in the past.

In the one case in which our audit discovered a 15-year-old worker in active employment, we required the supplier to verify the ages of all employees at the factory regardless of whether they worked on Apple production. We reviewed the records of nearly 16,000 employees and found three additional 15-year-old workers. We required that the supplier return all four of these workers to their families and compensate them appropriately. We then followed up with each of these employees individually and verified that these actions had been taken and that they were treated fairly.

Two other core violation cases involved falsification of records reviewed during our audit. In the first instance, a supplier had exceeded working-hour limits and attempted to hide that fact. In the other, employee records were altered to conceal the hiring of under-age employees.

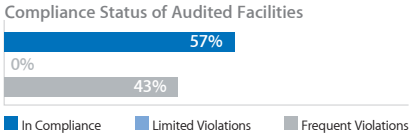
In all but one case, the suppliers' actions in correcting core violations were completed under the terms of our probation notice. One company's efforts were inadequate, and Apple decided to terminate the business relationship.

Additional Audit Findings

Summarized below are additional findings from our 2007 supplier audits. We observed a wide variability in the results of these audits. While five audits revealed ten or less findings, seven others recorded more than 50. In every case, the corrective actions are either complete or in progress.

Antidiscrimination

Antidiscrimination
Hiring discrimination was a common finding, occurring in over 40 percent of the facilities audited.



Our Code protects against discrimination on the basis of race, color, age, gender, sexual orientation, ethnicity, disability, religion, political affiliation, union membership, national origin, and marital status. In addition, we do not allow pregnancy tests or medical tests to be used in a discriminatory manner.

During our 2007 audits, we found that the practice of screening job candidates for hepatitis B was widespread—occurring in 63 percent of the facilities we audited. Hepatitis B is a common viral infection that cannot be transmitted through casual contact. Discriminating against carriers of hepatitis B is illegal in China and other countries and is prohibited under the medical testing provision of our Code.

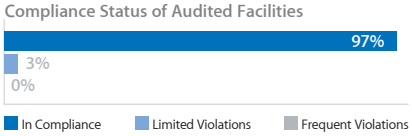
Another common finding was discrimination based on pregnancy status. In 39 percent of our audits, we found mandatory pregnancy testing or other policies or practices that discriminated against pregnant women.

In 24 percent of the facilities audited, we found evidence that other forms of discrimination were in use to screen job applicants. Some companies specified a certain age range and/or gender in their job requisitions or recruitment materials. In other cases, our auditors discovered that candidates were asked discriminatory questions during the application process. For example, recruiters asked questions about the applicant's religion, ethnicity, and other potentially discriminatory factors that were not relevant to the job being sought.

In every case where we have found discrimination, even where these actions were permissible under local laws, we have ensured that the practices were discontinued.

Fair treatment

Fair Treatment
We found no employee harassment or abuse in our 2007 audits.



In more than 800 interviews of randomly selected employees, we found no evidence of physical abuse, forced labor, or harassment. However, we did find three cases in which employees were disciplined in unacceptable ways.

In one case, employees were required to clean bathrooms, and in the other two cases, employees had to write the mistake for which they were being disciplined multiple times or read it aloud to coworkers. In each case, we have required that these practices cease.

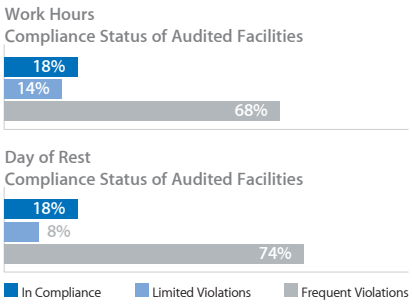
When we interview employees, we provide our contact information and follow up with them to ensure that they are not subjected to any retaliation or harsh treatment as a result of our audit. No cases of retaliation have been reported.

Labor standards

As detailed in the Core Violations section on page 7, our audits discovered four facilities at which employees were hired at age 15, in violation of local employment laws.

Work hours and days of rest

Working Hours and Days of Rest
Supplier employees working longer than 60 hours per week or more than six consecutive days was a common finding.



The Apple Supplier Code of Conduct sets a maximum of 60 work hours per week and requires at least one day of rest per seven-day week under normal work conditions.

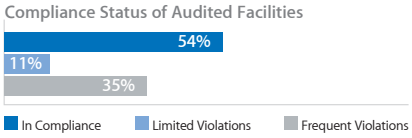
We examined records from each supplier across multiple shifts of several production lines, ensuring that the samples included peak production months. We found 82 percent of the audited facilities had violated these standards at least once.

At 26 of the facilities audited, the records we reviewed indicated that workers had exceeded weekly work-hour limits more than 50 percent of the time. At 23 facilities audited, more than half of the records we reviewed indicated that the employees had worked in excess of six consecutive days at least once per month, and in some of these cases, the employees worked an entire month without a day off.

While our Code allows exceptions to these standards in unusual or emergency circumstances, the practice of working beyond these limits appears to be routine rather than exceptional for some suppliers. Apple is working with each of these suppliers to improve management systems in order to limit overtime hours and ensure employees have at least one day of rest in a seven-day week under normal work conditions.

Wages and benefits

Wages and Benefits
While most facilities pay their employees fairly, a significant percentage had unclear pay processes or underpaid employees.



Apple's Code of Conduct addresses several areas of compensation, including base wages, overtime wages, legally mandated benefits, the manner in which employees are paid, and prohibition of wage deductions for disciplinary purposes.

At 37 percent of the facilities audited, we found that the employer's pay structure was unnecessarily complex, difficult for employees to understand, and could result in underpayment of employees.

At nine of these facilities, our auditors found that workers had been paid less than minimum wage for regular working hours. In some of these cases, the wages were based on incorrect pay formulas. For example, the minimum wage rate consisted of a base rate plus performance-related bonuses. Without the bonus payment, wages fell below minimum wage.

In other cases, select groups of employees (for example, trainees) were paid less than minimum wage. While there are differing opinions on the legal pay rate for trainees, Apple requires that all employees receive at least local standard minimum wages for regular work hours.

We found similar problems with pay calculations for overtime hours and three cases that resulted in underpayment of overtime wages.

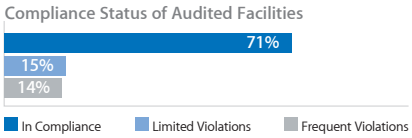
Regardless of whether or not underpayment had actually occurred, we required these suppliers to adjust their pay practices to ensure that the legally applicable minimum and overtime wages are paid to all employees, and pay procedures are clear and easily understood.

In cases where employees were actually underpaid, we require the employers to pay back the shortfall either directly to the employees or, if that is not practical due to turnover, fund new benefits for employees. For example, one of our major suppliers has invested in a new gymnasium and library facilities as part of an Apple corrective action plan.

Another commonly discovered violation, found in just over half of our audits, was salary deductions used for disciplinary purposes. While this is legal under local laws, the Apple Supplier Code of Conduct prohibits this practice. We required an end to disciplinary fines in each case detected by our audits.

Dormitories and dining

Dormitories and Dining
Most dormitories and cafeterias met our standards.



Positive changes stemming from our audits extend beyond the work environment to the dormitories where thousands of workers in our supply chain live.

In 2007, we were contacted by one of our major suppliers who wanted more information on how to construct dormitories that would meet the standards in our Code. We saw this as both a positive sign of our supplier's commitment and a great opportunity to spell out more explicit standards for clean, safe dormitories.

After doing some research, we developed and distributed a 37-point guideline that established minimum standards and best practices for employee dormitories. The results have been more personal space; better safety, security, and sanitation; more recreational amenities; and overall improvements in comfort for workers. One of our suppliers has improved 30 dormitories using the Apple guideline.

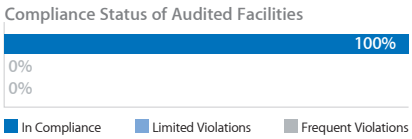
While the implementation of these guidelines is progressing, our 2007 audits found several deficits. The most common findings in dormitories were a lack of smoke detectors in rooms and inadequate first-aid kits. We also found incidents of exit doors that were blocked, opened inward, or required two hands to operate, as well as dorms lacking proper exit signs and emergency lighting.

In our inspections of kitchens and dining areas we analyze the cleanliness and operation of food preparation and storage areas. With respect to these issues, we found that 47 percent of facilities audited required at least one corrective action. For example, some of the cafeterias lacked a current health certification or up-to-date health testing for all kitchen personnel; in others we observed food that was improperly stored.

The corrective actions to address the findings for dorms and dining areas are either complete or in progress. As reported above, when we revisited final assembly facilities that had adopted our dormitory guidelines, we observed extensive upgrades in living conditions and received positive reports from the employees on the improvements that were made.

Freedom of association

Freedom of Association
Lawful rights to unionize were upheld.



Our audits found no cases of restricting rights to lawful freedom of association or collective bargaining. We also found no instances of interference with union activities or discrimination targeted at union members.

Health, safety, and environment

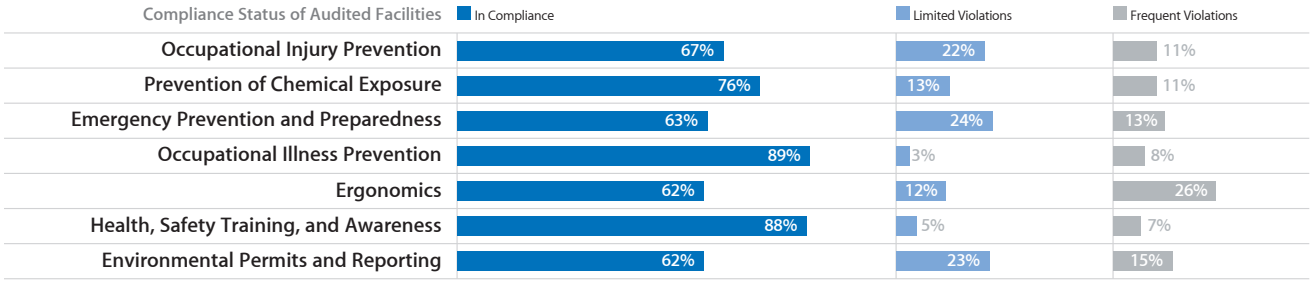
Our suppliers must be committed to creating safe and healthy working conditions and protecting the quality of the environment around them.

More than 60 percent of the facilities we audited in 2007 were in full compliance with health and safety standards in our Code.

Ergonomic issues, such as lifting or repetitive motions, had the highest percentage of violations. We also found blocked or improperly installed emergency exits, first-aid kits that were either missing or lacked adequate supplies, and improper chemical storage (for example, acids stored with bases). In all cases where violations were discovered, we required the facility to correct the issue and address the root causes.

The majority of facilities were in full compliance with permits and reporting requirements for protecting the environment, and 89 percent had programs to prevent pollution and reduce the consumption of natural resources.

Most of the health, safety, and environmental findings were in the area of management systems (see "Robust management systems" below). For example, we found inadequate written procedures to block access to hazards such as electrical panels and poor or missing emergency drill procedures and training programs. Again, all noted deficiencies have been addressed through the post-audit corrective action plans.

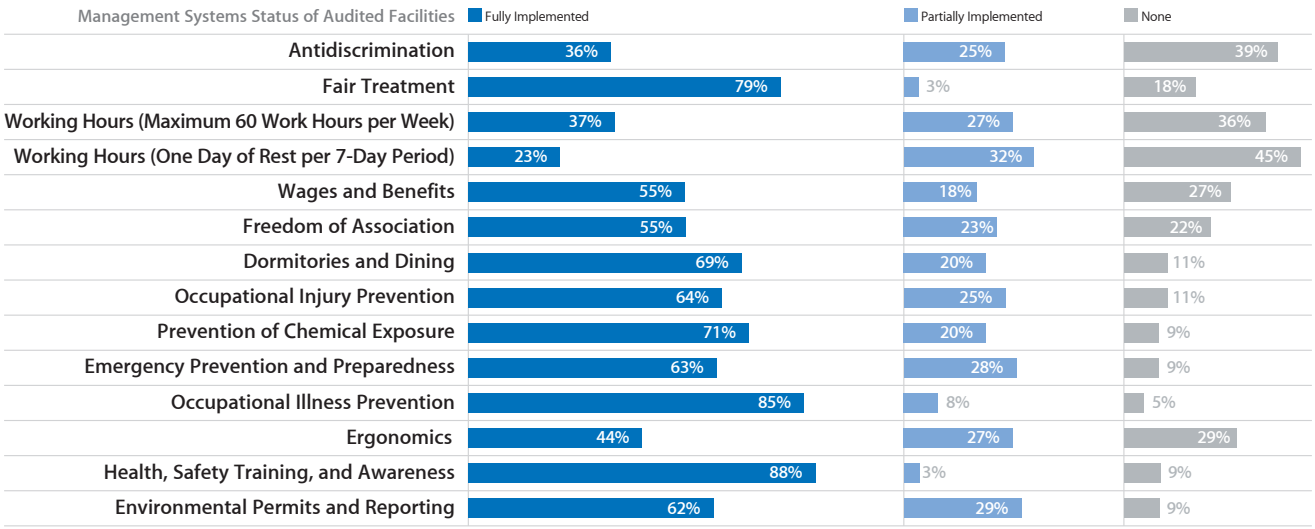


While our audits found problems that required correction, environment, health, and safety issues were generally well managed.

Robust management systems

In addition to evaluating compliance for each component of our Code, our audits also examine the strength of the underlying management systems.

While this area of our Code is administrative in nature, we believe that robust management systems are the hallmark of a well-run facility. The chart below is a summary of the maturity of the management systems for each element of our Code as well as the overall operation of the facility.



Management systems are vital to sustained compliance. There is a strong relationship between the strength of the management systems we evaluated in 2007 and compliance with our Code.

Overall, the strength of the management systems we evaluated in 2007 is very closely related to the level of compliance observed in our audits. Since management systems are the key to sustained compliance, this observation provides valuable insights for future investments in our supplier training and capacity-building efforts.

Training

Supplier Training

Our auditing experience has taught us that monitoring alone will not achieve our goals. Education that raises awareness of social responsibility is a critical factor for sustained performance. To that end, working in partnership with one of our suppliers and Verité—a well-regarded auditor and trainer in social responsibility—we developed a training program for workers and supervisors. In this pilot program, workers are offered courses in the following areas:

- Occupational health and safety
- Corporate social responsibility and common code of conduct issues
- Work-related injury prevention
- Occupational disease prevention
- Preventing harassment

Managers and supervisors are required to take courses designed to maintain a safe, healthy, and positive work environment in the following areas:

- Advanced communication for conflict resolution
- Overview of industry codes of conduct
- Health and safety in the workplace and dormitories
- Injury prevention

Following discussions with factory management and workers, we expanded the curriculum to offer optional courses in the following areas designed to improve employees' experiences:

- Communication for conflict resolution
- Personal finance
- Stress management

In the pilot phase, 1766 workers and 481 managers attended these sessions. Feedback was overwhelmingly positive, and we are expanding the program to other suppliers in 2008.

Apple Employee Training

In 2007, we trained a cross-section of Apple employees from various departments to serve as ad hoc monitors of supplier responsibility. Employees such as quality engineers and purchasing managers who visit supplier facilities frequently were trained to identify and report potential violations of our Supplier Code of Conduct.

To facilitate reporting of issues, we have developed an online ticket system that allows any Apple employee to report potential Code violations, which are then investigated and resolved by our Supplier Responsibility team.

Best Practice Guidelines

The Apple Supplier Code of Conduct establishes basic expectations, but sometimes our suppliers need more guidance.

For this reason, Apple is building a library of Best Practice Guidelines that outline specific implementation steps drawn from our experience and from benchmarking with other companies. So far, we have developed guidelines in areas such as dormitory conditions, medical tests, work rules for students, and nondiscriminatory recruiting.

We will continue to add to our library of Best Practice Guidelines and make them available to our suppliers.

Moving Forward

By aggressively auditing our suppliers and pursuing corrective actions, Apple has improved living and working conditions for tens of thousands of employees in our supply chain. We are especially encouraged by the amount of progress our teams are finding when they return to a facility and conduct a follow-up audit.

Our plans for 2008 include the following:

- Double the number of facilities audited for compliance with our Code
- Double both the number of Apple employees and supplier employees trained on the expectations in our Supplier Code of Conduct
- Develop and distribute Best Practice Guidelines for more topics covered by Apple's Supplier Code of Conduct

Going forward, we will provide updates on our progress. Apple is committed to ensuring the highest standard of social responsibility wherever our products are made.

For More Information

To get more information about Apple's Supplier Responsibility Program, visit www.apple.com/supplierresponsibility/.

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